Trading With A Federal Europe: Some Legal Issues

by Nicholas Terry

I. Introduction

While it may not be strictly accurate to describe European Community law as "federal" in advance of the political initiative necessary to found a "United States of Europe," it must be recognized that the Treaty of Rome[1] is, in a sense, a federal constitution and has transferred considerable legislative powers from the individual states to the European institutions. Under the treaty, federal law is supreme and has exclusive competence in almost all matters touching upon the regulation of the community's trading relations with other countries, the movement of goods, services, persons and capital between the member states and the policies that are necessary to achieve and maintain a single unified market.

There will be no attempt here to give any insight into the national laws of the nine member states[2] of the EEC; it is intended only to make some brief introductory remarks as to some aspects of EEC federal ("community") law.

The attorney who anticipates the need for advice as to community law should have little difficulty in finding a European firm with the requisite expertise since EEC law now has a place in the curriculum at most European law schools. It should be noted that, as yet, there is no such animal as a "European lawyer"; no single qualification suffices for all the member states, due in no small part to the conceptual gulf (be it real or only perceived) between the Common and Civil law systems. Nevertheless there is already EEC legislation which gives to a lawyer who is qualified in one member state certain limited and temporary rights in other community countries.[3]

1. Signed by the original six member states in 1957.
2. Belgium, Federal Republic of Germany, France, Italy, Luxembourg, The Netherlands, Denmark, Ireland and The United Kingdom.
3. Council Directive No. 77/249/EEC, O.J. 1977 L78/17.

Nicholas P. Terry received his B.A. (Law) from Kingston Polytechnic, England in 1975 and an L.L.B. from the University of Cambridge, England in 1976. He is a Lecturer at the Center for European Legal Studies, University of Exeter and is currently on leave to serve as a visiting Assistant Professor of Law at St. Louis University Law School for the 1980-1981 academic year.

As for self-help the basic sources of European federal law are to be found in the libraries of many U.S. law schools. Community legislation[4] is to be found in the "Official Journal" and there are two reporter systems for the opinions of the community's supreme court, the European Court of Justice, which sits in Luxembourg.[5]

II. Antitrust

The space devoted to EEC antitrust policy in the Treaty of Rome belies its complexity, growing sophistication and the severity with which its transgressors may be dealt with. The pivotal provisions are EEC: Arts. 85, 86; the former dealing with restrictive practices, the latter with aspects of monopoly power.

> Art. 85(1) The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerned practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market. ...
>
> Art. 86 Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States. ...

A. Nature and Scope

Central to the definition of such prohibited conduct is the requirement that it "may affect trade between Member States." Thus the federal European antitrust law is only concerned with anticompetitive behavior which may hinder *inter*-state trade.

This has the important consequence that these federal rules do not in any way affect the application of national competition laws which are designed to safeguard *intra*-state trade. Thus the question as to whether or not the conduct in Europe of a U.S. exporter offends against, for example, the German *Gesetz gegen Wettbewerbsbeschränkungen 1957* or the U.K. *Competition Act 1980* is in no way determinative as to the applicability of the EEC competition rules. It should also be noted that although the EEC prohibition is concerned with conduct that may affect inter-state trade, there is no requirement that the parties to, say, a restrictive agreement are from *different* member states[6]; indeed there is no requirement that the parties are from *any* member state, thus giving the EEC rules at least the potential for extra-territorial effect.[7]

B. The Regulatory Agency

Charged with the administration and enforcement of the federal antitrust law is the European Commission. Subordinate legislation[8] makes the Commission investigator, prosecutor, judge and sentencing authority in all EEC anti-trust matters, subject to review before the European Court of Justice.

The Commission has power to request information from undertakings, to make either announced or unannounced on-the-spot investigations and to examine and copy documents. It has only recently begun to make extensive use of these powers and some issues — for example, whether there is a right to examine communications between attorney and client[9] — have yet to be clarified by the European Court. In practice there is considerable cooperation between the Commission and national antitrust authorities in investigations; although where a suspected undertaking is established outside the territory of the EEC, the Commission relies heavily upon "information received." In such cases the Commission is often powerless to protect its source; thus, in the celebrated "Vitamins" case[10], the Hoffmann-La Roche employee who provided the Commission with much crucial information was subsequently convicted of industrial espionage by a Swiss court.[11]

C. Sanctions

In cases of violation of the Community competition rules, the Commission may issue a 'cease and desist' order as either a final or interim measure and may impose either procedural or substantive fines[12]; procedural in that an undertaking may be fined for failure to supply information or documents, for supplying incorrect information or for failure to obey a 'cease and desist' order. Substantive in the sense that a fine may be imposed for the anti-competitive behavior itself.

As an example of the latter, the European subsidiary and three exclusive distributors of the 'Pioneer' electronics company were recently fined a total of EUA 6,950,000 (approximately $10 million) for dividing up the European market along national boundaries.[13]

---

4. EEC: Art. 189 — "regulations," "directives" and "decisions." Depending upon the subject matter either the Commission or the Council of Ministers has legislative competence. Community institutions which are elected (the European Parliament) or representative of interested parties (*e.g.* the Economic and Social Committee) have merely a strong consultative role.
5. The present writer has been able to make use of the extensive resources of the law library at St. Louis University, which includes most of the important secondary sources in addition to the basic texts.
6. *Brasserie de Haecht v. Wilkin-Janssen (No. 1)*, 7 C.M.L.R. 26 (1968).
7. *Imperial Chemical Industries Ltd. v. EEC Commission*, 11 C.M.L.R. 557 (1972); *United Brands Company and United Brands Continental BV v. EEC Commission*, 21 C.M.L.R. 429 (1978); *Hoffman-La Roche & Co. AG v. EEC Commission*, 26 C.M.L.R. 211 (1979).
8. The principal legislation is Reg. 17/1962; O.J. 1959-1962, 87.
9. Re An Investigation At AM & S Europe Ltd., O.J. 1979 L 199/31.
10. *Hoffmann-La Roche & Co. AG v. EEC Commission*, 26 C.M.L.R. 211 (1979).
11. *Stanley Adams v. Staatsanwaltschaft Des Kantons Baselstadt*, 23 C.M.L.R. 480 (1978).
12. Reg. 17 Arts. 3, 15, 16.
13. Re 'Pioneer' Hi-Fi Equipment, O.J. 1980 L60/21.

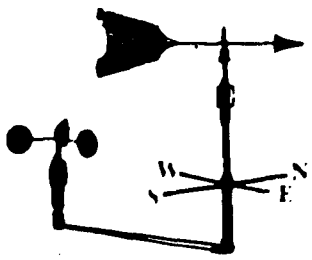

The United Way

Since an "agreement" covered by EEC Art. 85 is "void,"[14] that fact may be pleaded before a *national* court as a defense to an alleged breach of contract. Furthermore since the conduct covered by EEC Art. 85, 86 is "prohibited" a third party is able to plead such conduct as a defense to, say, a patent infringement action. It is also thought that EEC Arts. 85, 86 are not purely defensive in nature but may ground an action in tort brought by a third party whose economic interests have been injured by the prohibited antitrust violation.[15] It should be noted that Community law does not, of itself, give any right to punitive or multiple damage claims.

D. Substantive Issues

Whether there has been a breach of the substantive EEC anti-trust rules depends upon the answers to a series of complex factual, legal and economic questions. It is intended only to highlight some of the major issues.

IS WEATHER IMPORTANT TO YOUR CLIENT'S CASE?



WEATHER CONSULTING SERVICE

Over 30 years experience providing weather information for Law Firms and Insurance Companies. Available for expert testimony.

GEORGE N. BRANCATO

METEOROLOGIST

9 CLUB GROUNDS N. DR.
FLORISSANT, MISSOURI 63033
314-837-6815

The attorney, faced with a question as to the legality of his client's proposed conduct, must look not only to the published decisions of the Commission and the now voluminous case law of the European Court but also to non-legislative notices published by the Commission giving its view as to the applicability of EEC: Art. 85 to certain categories of agreement.

(i) Plurality of Undertakings; for Art. 85 to be applicable there must be some anti-competitive activity entered into by "undertakings." This precondition is not satisfied if the undertakings are part of one economic entity; thus agreements between parent corporations and subsidiaries[16] or between corporations and employees (including some commercial agents[17]) will not fall under the prohibition. EEC: Art. 86 does not contain a plurality requirement.

(ii) The Rule of Reason; a *de minimis* rule applies to practices that do not appreciably restrict inter-state competition.[18]

(iii) Prohibited agreements; understandably the Commission has not tolerated any agreement that would grant to an undertaking absolute territorial protection and thus threaten the carefully established unity of the common market. There has thus been an attack on all vertical distribution agreements, whether "exclusive"[19] or "selective,"[20] which contain export bans or deterrents.[21] In addition the Commission has investigated both horizontal and vertical agreements dealing with, for example, joint ventures, specialization, research and development, exchange of information as well as more obvious restrictive practices relating to price-fixing and market-sharing.

(iv) Block exemptions; a limited class of agreements, although prohibited by Art. 85(1) are exempted by specific legislative measures. These so-called "block-exemptions" apply to certain categories of distribution,[22] and specialization[23] agreements; legislation is expected shortly to deal with patent licensing agreements.[24]

(v) Individual exemptions; if a prohibited agreement is formally notified[25] to the Commission an individual exemption may be granted. Aside from the preconditions set out in EEC Art. 85(3),[26] the attorney must once again turn to the reported decisions and cases to gain insight into the criteria used by the Commission. It should be noted that in most cases no individual exemption may be granted without compliance with the formal notification procedure. An additional incentive to notify is that for the period between notification and decision there is an immunity from fines.[27]

(vi) Article 86; this has proved, so far, to be of less importance in encouraging free competition in Europe. The Commission has tended to emphasize the role of Art. 85 in its work, due in part no doubt to the fact that

14. EEC: Art. 85(2).
15. *Per* Lord Denning M.R., *Application des Gaz v. Falks Veritas*, [1974] Ch. 381, 396 (Court of Appeal, England).
16. *Béguelin Import Co. v. GL Import-Export*, 11 C.M.L.R. 91 (1972).
17. Communication on Exclusive Agency Contracts Made with Commercial Agents O.J. 1962 2921; *Suiker Unie v. EEC Commission*, 17 C.M.L.R. 295 (1976).
18. Commission notice concerning agreements of minor importance; O.J. 1977 C 313/3; *Völk v. Vervaecke*, 8 C.M.L.R. 273 (1969).
19. *E.g. Etablissements Consten SA and Grundig-Verkaufs GmbH v. EEC Commission*, 5 C.M.L.R. 418 (1966).
20. *E.g.* Re BMW, O.J. 1975 L29/1 (although an individual exemption was granted).
21. *A. Bulloch & Co. v. The Distillers Co. Ltd.*, O.J. 1978 L50/16.
22. Reg. 67/67; O.J. 1967 10.
23. Reg. 2779/72, O.J. 1972 (28-30 Dec.) 80 as amended by Reg. 2903/77, O.J. 1977 L338/14.
24. Draft Regulation, O.J. 1979 L58/12.
25. Reg. 17; Reg. 27/62, O.J. 1959-1962 132; Reg. 1133/68, O.J. 1968 L189/1; Reg. 1966/75 O.J. 1975 L172/11.
26. *E.g.* the restrictive agreement is necessary for technical progress and is of benefit to the consumer.
27. Reg. 17 Art. 15(5)(a).

Art. 86 does not control monopoly power *per se* and has proved to be a less than effective tool for the control of mergers and takeovers.[28]

Nevertheless, although proving the existence of a "dominant position" continues to involve a daunting legal and economic examination of market structures, it is now well-established that Art. 86 is capable of striking down not only behavior which is abusive *per se* but also more general anti-competitive activities.[29]

It is also becoming clear that Art. 86 may be an effective weapon for controlling the activities of some multinational corporations; in recent cases the Commission has successfully challenged a fidelity rebate scheme operated by Hoffman-La Roche[30] and United Brands' European marketing strategy for bananas.[31]

III. Intellectual Property

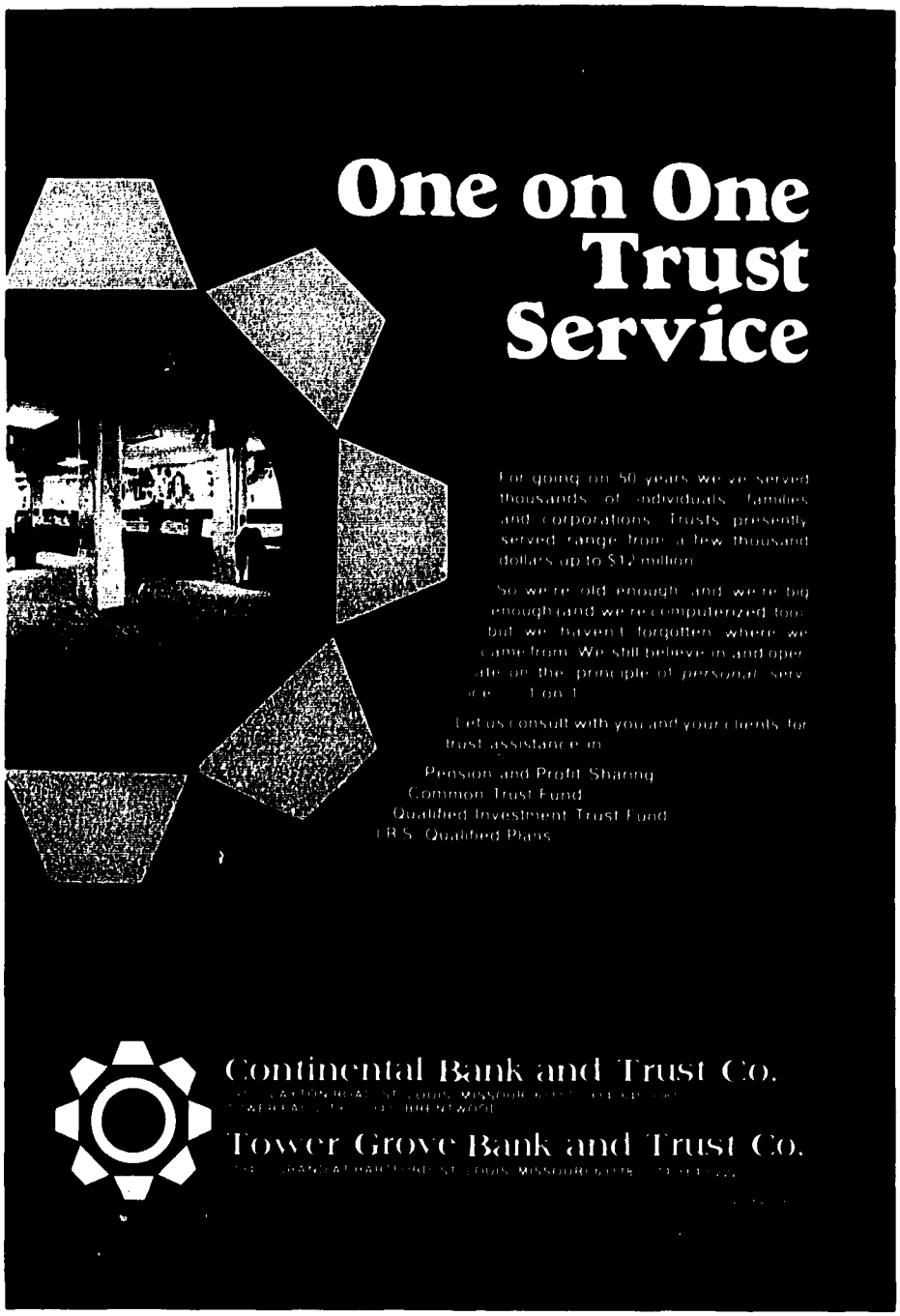
Two themes dominate any discussion of the impact of European federal law on intellectual property rights. The movement towards the abandonment of national rights in favor of a single community right; and second the extent to which national rights must be restricted in the interim.

A. One Patent or Nine? — The New European Systems

For the foreseeable future the individual patent systems of the member states of the European Community will continue in existence. The U.S. holder who requires protection for property right when he commences to trade with the Community may, therefore, continue to apply for national patents in the European states in which he considers himself likely to do business.

However, a complex revolution is under way. The U.S.A. and the member states of the EEC are among the signatories to the world-wide Patent Cooperation Treaty[32] (PCT) which provides for a single filing system notwithstanding the number of individual national patents applied for. If the application is made to the European office of the PCT (Munich) and the patent application concerns a European state (including all the EEC states) then the provisions of the European Patent Convention[33] (EPC) come into effect. Under the EPC there is not merely a unified filing system (as under PCT) but a unified system up to the grant of the patent.

28. *Europemballage and Continental Can v. EEC Commission*, 12 C.M.L.R. 199 (1973).
29. *E.g. Hoffman-La Roche Co. AG v. EEC Commission*, 26 C.M.L.R. 211 (1979).
30. *Hoffman-La Roche Co. AG v. EEC Commission*, 26 C.M.L.R. 211 (1979).
31. *United Brands Company and United Brands Continental BV v. EEC Commission*, 21 C.M.L.R. 429 (1978).
32. Washington; June 19, 1970. 9 Int. Legal Materials 978 (1970).
33. Munich, October 5, 1973. 13 Int. Legal Materials 268 (1974).



The most important step, however, is the introduction of a Community patent. Under the Community Patent Convention[34] there will be a single supra-national patent for the member states of the EEC. Thus any valid application made under the EPC for a patent in an EEC state will lead to the grant of a single patent covering the whole territory of the EEC.

B. Restrictions on the Exercise of Intellectual Property Rights

The aim of the EEC is to provide and protect a single unified market for goods. Although the intellectual property rights granted by the national laws of the member states are expressly protected by the Treaty of Rome,[35] the European Court has consistently refused to permit the holders of such rights to use them so as to partition the EEC for their own marketing purposes.

Space does not permit a full examination of the jurisprudence of the court; however, it is hoped to give an indication from some of the leading cases as to the devices that have been impugned and also, perhaps, a reassurance that, aside from such devices, the intellectual property rights granted by state laws are still respected by European federal law. In *Deutsche Grammophon*,[36] Metro, the West German supermarket chain, refused to comply with Deutsche Grammophon's retail price maintenance scheme. Starved of cheap supplies in Germany, Metro used a Swiss intermediary to acquire the products from Deutsche Grammophon's French subsidiary. Under German law the import of such goods infringed Deutsche Grammophon's copyright. Art. 85 could not aid Metro, since there was no plurality of undertakings, merely an "agreement" between parent and subsidiary. The court therefore turned to EEC: Art. 30, as qualified by Art. 36(1):

> Quantitative restrictions on imports and all measures having equivalent effect shall ... be prohibited between Member States.
>
> The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports ... justified on grounds of ... the protection of industrial and commercial property.

Faced with this dilemma the court seems to have adopted the well known "exhaustion of rights" doctrine.[37] The court seemed to reason that community law protected only "unexhausted" intellectual property rights. Once a product protected by the right had been marketed by or with the consent of the holder of the right in a member state of the community then his rights in all other community states were exhausted.

The subsequent case of *Centrafarm BV v. American Home Products*[38] concerned a sedative, produced by the American Home Products Group (AMH), the active ingredient of which was oxazepamum. In the Benelux countries[39] AMH sold the drug under their trademark 'Seresta.' In the United Kingdom AMH sold the drug under their trademark 'Serenid D.' Serenid and Seresta had identical therapeutic effects despite a slight difference in taste. Centrafarm, the Dutch pharmaceutical retailer, purchased Serenid in the United Kingdom at a lower price than it could obtain Seresta in Holland. However, since Serenid was unknown in Holland, Centrafarm repackaged it and affixed the Seresta mark prior to selling the product. When AMH's infringement action was referred to Luxembourg the European Court appeared to recognize that this was not a case of exhaustion of rights; after all AMH had not marketed Seresta in the United Kingdom. Instead the court relied upon the qualification to EEC: Art. 36(1) contained in Art. 36(2):

> Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

The court was of the opinion that this provision was apt to cover the case provided that there was evidence that AMH was attempting to partition the market and that the repackaging was executed under certain conditions.

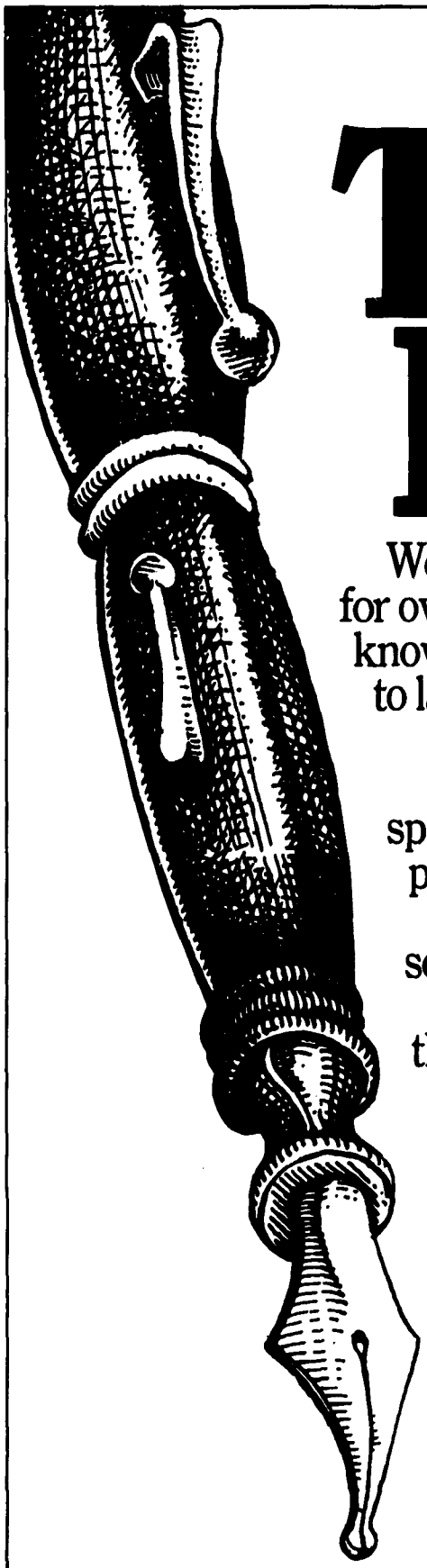
In cases such as these the European Court has been at pains to point out that attempts to partition the common market along national frontiers will not be tolerated even if the effect is to reduce the value of some intellectual property rights recognized by the national laws of the community states. Throughout, however, the court has also stressed that aside from these extreme cases the national intellectual property rights will be inviolate.

In *EMI v. CBS*[40] the early twentieth-century history of a fledgling record industry threatened to return to haunt the multinationals that control it today. Before the First World War the Columbia Phonograph Company General registered the trademark 'Columbia' in the U.S.A. and several European countries, and subsequently transferred its European interests to an English subsidiary.

In 1922 the English subsidiary parted company from its parent and from that time the ownership of the American and European Columbia trademarks has been separate. By 1974 the American mark was owned

---

34. December 15, 1975; O.J. 1976 L17/1. Other *community* intellectual property rights are to be introduced; see e.g. "Memorandum on the Creation of an EEC trademark," Bull. E.C. Supp. 8/76.
35. EEC: Arts. 36(1), 222.
36. *Deutsche Grammophon GmbH v. Metro-SB-Grossmärkte GmbH & Co. KG*, 10 C.M.L.R. 631 (1971).
37. *Betts v. Willmott*, 6 L.R. Ch. App. 239 (1870); *Curtiss Aeroplane and Motor Corporation v. United Engineering Corporation*, 266 F. 71 (1920).
38. 24 C.M.L.R. 326 (1979).
39. Belgium, Luxembourg and The Netherlands.
40. *EMI Records Ltd. v. CBS United Kingdom Ltd., CBS Grammofon A/S and CBS Schallplatten GmbH*, 18 C.M.L.R. 235 (1976).



TO THE POINT.

We've been in the title insurance business for over three quarters of a century. So we know that quick, accurate, flexible service to lawyers is very important.

With an emphasis on flexible.

Because each property sale involves special problems. Whether they're legal, procedural or even psychological.

And, we stay flexible to help lawyers solve those problems.

It's simple, we understand that closing the deal takes quick, professional service. Right to the point of signing the deed.

PIONEER NATIONAL TITLE INSURANCE
A TICOR COMPANY

Clayton • 8040 Forsyth, Clayton (726-2600)
Downtown • 730 Chestnut, St. Louis (241-1647)
West County • 14326 S. Outer Rd., Chesterfield (434-2221)
North County • 2164 N. Waterford, Florissant (831-5400)
South County • 5520 Telegraph Rd., Oakville (487-8900)
St. Charles • 615 S. Fifth St., St. Charles (946-6672)

by CBS Inc., the European marks by EMI Records Ltd.

Litigation was commenced when the UK, Danish and German subsidiaries of CBS began to import and market American made Columbia records without removing the Columbia trademark. Since it was unlikely that there was any subsisting agreement between the parties such as to bring Art. 85 into play and as there was no exhaustion by EMI of its rights, CBS relied upon "common origin," a doctrine akin to exhaustion to the effect that a right may be "exhausted" not only by marketing by the holder but also marketing by the independent lawful holder of an identical right in another country when such rights had a common origin.

The decision of the court to the effect that European federal law would not interfere with EMI's infringement action has an implication far beyond the common origin doctrine. The court's decision was based upon the fact that a victory for EMI would not affect trade "between member-states" (EEC: Art. 30); it is, therefore, arguable that the same answer would be given in an exhaustion case. Thus if CBS had owned both the American and European rights to the trademark it would seem that although, because of the exhaustion doctrine, it would *not* have been possible for them to prevent parallel imports from, say, France into Germany, it could have stopped cheap parallel imports into Europe from the U.S.A. — in other words there is no doctrine of world-wide exhaustion.

It may be concluded that the U.S. holder of an intellectual property right who decides to do business in Europe may protect his European marketing organization from third parties intending to undercut him; the *caveat* should of course be added that care should be taken to avoid any European antitrust violation in the operation of such a scheme.[41]

IV. Conclusion

The growth of community law should not deter the U.S. businessman from entering the EEC marketplace. Although some of his traditional trading practices may have to be curtailed, this is equally true for his competitors. On the positive side there are some very real benefits to be had as a result of the unifying force that is European federal law. As for the American attorney it is to be hoped that he will not only be intrigued by the emergence of this new field of law, but will also come to regard it as a fertile ground for his talents.

41. *E.g. The Who Group Limited and Polydor Limited v. Stage One (Records) Limited*, 28 C.M.L.R. 429 (1980), English High Court.

impressive suite unusual opportunity

Exquisitely decorated offices with unique architectural features private entrance on Fourth Street

offering flexibility of room combinations up to

7 private offices with
7 secretary locations at Competitive Rates

Additional Options Available

- Conference Room
- Shared Receptionist-Typist
- Telephone Answering

The Historic Security Building
319 N. Fourth Street • St. Louis, Mo.
DIRECT INQUIRIES TO 241-8442